THE U.S. GOVERNMENT AS DOMINANT SHAREHOLDERS: HOW SHOULD THE TAXPAYERS OWNERSHIP RIGHT BE EXERCISED? (PART 2)

HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC POLICY

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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THE U.S. GOVERNMENT AS DOMINANT SHAREHOLDERS: HOW SHOULD THE TAXPAYERS OWNERSHIP RIGHT BE EXERCISED? (PART 2)

THURSDAY, DECEMBER 17, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC POLICY,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 2154, Rayburn House Office Building, Hon. Dennis J. Kucinich (chairman of the subcommittee) presiding.

Present: Representatives Kucinich, Maloney, Cummings, Foster, Turner, and Jordan.

Staff present: Jaron R. Bourke, staff director; Michael Clark, professional staff member; Jean Gosa, clerk; Leneal Scott, IT specialist; Adam Hodge, deputy press secretary; Adam Fromm, minority chief clerk and Member liaison; Christopher Hixon, minority senior counsel; Hudson Hollister, minority counsel; and Brien Beattie and Mark Marin, minority professional staff members.

Mr. KUCINICH. Good morning. The Domestic Policy Subcommittee of the Oversight and Government Reform Committee will now come to order.

Today's hearing is the second day of hearings to examine the way that common equity shareholder rights acquired by the Treasury Department under authorities provided in the Emergency Economic Stabilization Act of 2008 have been exercised to date and to assess alternative frameworks for exercising and protecting taxpayers' interests.

Without objection, the Chair and ranking minority member will have 5 minutes to make opening statements, followed by opening statements not to exceed 3 minutes by any other Member who seeks recognition.

Without objection, Members and witnesses may have 5 legislative days to submit a written statement or extraneous materials for the record.

AIG, Citigroup, GM, and Chrysler came on their knees to the government for a bailout. To an important degree, the failures of all four companies have resulted from failures in corporate governance, failures in risk management, failures in compliance, failures to hold executives accountable, and failures to rein in excessive corporate pay. Taxpayers are underwriting the rescue efforts, and the Treasury Department is managing about $200 billion in common equity in these four failing companies acquired under the Emergency Economic Stabilization Act of 2008.

The first question we have to ask is, is Treasury appropriately accountable to Congress and the taxpaying public in its exercise of these shares, including key decisions that Treasury has made or will have to make, such as the decision to manage the shares passively, the decision to allow Citigroup to decide when the Government would divest its shares, the criteria for disinvesting, how and under what circumstances would congressional approval be required for actions such as divestiture, the regulations by which Treasury would administer the shares.

The second question is, have the actions of the Federal Government had the effect of upholding best practices in corporate governance, or has Treasury managed our stake in these four companies in a way that amounts to a major step backward in corporate governance?

The experts we spoke with yesterday were unanimous on at least one point: The U.S. Government has done far less than it could have done and should have done to advance the cause of effective, accountable corporate governance. Instead, the U.S. Government has adopted a passive role by refusing to exercise even the minimal role expected of large shareholders in board-level decisionmaking and dealing with corporate management. This failure puts taxpayer interests and the public interests at risk in several ways. It breaks the chain of authority, transparency, and accountability. It weakens oversight functions and fosters a culture of backroom deals. And it sends a signal to corporate boards and managements that this government has very low expectations when it comes to reasonable and responsible exercise of legitimate shareholder preferences.

We also heard evidence that the government hasn't taken a hands-off approach in all manners. We have heard testimony in the past and received confirmation from the GAO yesterday, for example, that in the case of AIG the Federal Reserve Bank of New York participates in board and committee meetings, meets frequently with management, has a large team of experts following many aspects of the company activity.

The third question we have to ask is, whose interest and whose values are being represented by the way in which government shareholding is being exercised?

Nothing the Treasury Department is doing as dominant shareholder, according to our expert witnesses yesterday, assures that government-owned companies do not participate in consumer ripoff schemes, are neutral toward any efforts by workers to unionize as the law allows them to do, or adopt stricter than legally required controls over the use of exotic financial instruments and off balance sheet financial transactions.

Fourth, we ask, how has the Treasury used its rights as dominant shareholder to preserve jobs, home ownership, pensions, and life savings, as the law requires? The applicable statute is the Emergency Economic Stabilization Act of 2008, which sets out two fundamental purposes: One of course is to provide authority and facilities that the Treasury Secretary can use, "to restore liquidity and stability to the financial system." The other, equally important and binding, is, “To ensure that such authority and facilities are used in a manner that, A, protects home values, college funds, retirement accounts, and life savings; B, preserves home ownership and promotes jobs and economic growth; C, maximizes overall returns to the taxpayers of the United States; and, D, provides public accountability for the exercise of such authority.”

Is Treasury realizing those goals through its dominant equity positions in AIG, Citigroup, GM and Chrysler? On the issue of jobs, we learned that our ownership of GM and Chrysler has actually accelerated job losses, plant closings, and dealerships. We have also downsized expectations, as well as the probability of meaningful success in protecting, let alone expanding, our core industrial base. For only the second time since records have been kept industrial capacity is actually shrinking in this country. We were reminded that the Obama administration bragged that they were even tougher on worker compensation than the Bush administration was, forcing American workers to accept by the end of the year pay and benefits cuts to make their compensation comparable to foreign auto makers in the United States. It was pointed out that then CEO of GM announced that in October 2009, post-taxpayer bailout, that the company would be sourcing even more parts and equipment from Korea, thus depriving American manufacturers of the benefits of supplying their own home market.

On pensions, we are reminded that creditors of the auto companies were forced to accept as little as 10 cents on the dollar for their investments in the auto companies while big banks that remain creditors of AIG and other companies have been made whole, made whole, through this crisis.

On home ownership, this committee has held several committee hearings in Washington and in the field in Atlanta and Cleveland. It is very clear that despite whatever Treasury thinks it is doing and may well be doing, it is very hard to find anyone who is benefiting from its piecemeal and half-baked approach. Forget about subprime mortgages. The evidence is that the level of household indebtedness that has resulted from the government-sponsored inflation of home equity values, extraordinary explosion of household indebtedness between 2001 and 2007, is the single largest impediment to economic recovery that we face today, and nothing meaningful to most ordinary Americans has been done.

And, fifth, we have to ask, why is Treasury giving preferential treatment to the two financial service companies whose failures required a government bailout, as compared to the treatment of two manufacturing companies? Almost every day brings new reports of yet another secret backroom negotiation to provide yet another sweetheart deal to yet another flagrant free-standing fat cat Wall Street firm. Yesterday, the revelation was the outrageous report that, in order to allow Citigroup escape from U.S. ownership, the U.S. Treasury, our trusted fiduciary, secretly gave its OK to an IRS exemption from a tax rule that may be worth several billion dollars. A high-level administration official is quoted in the Washington Post as saying: The tax benefit was unavoidable. “Either the government changed the rules and parted way with Citigroup, or the company kept the government as a shareholder and kept the tax break anyway.”

Are you kidding me? We give away the tax break, give away any semblance of control over a company that has been a 30-year poster child for troubled management and has almost a continuous need for government tutelage, give away any real upside from our most massive investment in Citigroup. Do this, or else we will be forced to do, what, keep our tax break? Keep our ownership? Keep our potential upside? It is a farce. It is an outrage.

This committee is not going to rest until we have examined this last deal threadbare, until we have spoken to every individual associated with it, examined every communication related to it, with every person who may have had an interest in it or who may have had some kind of a channel of influence.

And I speak as someone who opposed the bailouts, who was skeptical about this whole process from the beginning. It might be the Christmas season, but you are looking at a chairman who didn't fall off a Christmas tree.

I yield to my colleague.

[The prepared statement of Hon. Dennis J. Kucinich follows:]

Opening Statement of
Dennis J. Kucinich, Chairman
Domestic Policy Subcommittee
Oversight and Government Reform Committee

Hearing entitled: "The U.S. Government as Dominant Shareholder: How Should Taxpayers' Ownership Rights be Exercised? (Part II)"

December 17, 2009

AIG, Citigroup, GM and Chrysler came, on their knees, to the government for a bailout. To an important degree, the failures of all four companies have resulted from failures in corporate governance – failures in risk management, failures in compliance, failures to hold executives accountable, and failures to rein in excessive corporate pay. Taxpayers are underwriting the rescue efforts, and the Treasury Department is managing about $200 billion in common equity in these four failing companies acquired under the Emergency Economic Stabilization Act of 2008 (EESA).

The first question we have to ask is: Is Treasury appropriately accountable to Congress and the taxpaying public in its exercise of these shares, including key decisions that Treasury has made or will have to make, such as: the decision to manage the shares passively, the decision to allow Citigroup to decide when the Government would divest its shares, the criteria for disinvesting, how and under what circumstances would Congressional approval be required for actions such as divestiture, the regulations by which Treasury would administer the shares.

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The experts we spoke with yesterday were unanimous on at least one major point: the U.S. government has done far less than it could have done and should have done to advance the cause of effective, accountable corporate governance. Instead, the U.S. government has adopted a passive role by refusing to exercise even the minimal role expected of large shareholders in board-level decision-making and dealing with corporate management. This failure puts taxpayer interests and the public interest at risk in several ways: it breaks the chain of authority, transparency and accountability. It weakens oversight functions, and fosters a culture of secret backroom deals. And it sends a signal to corporate boards and managements that this government has very low expectations when it comes to reasonable and responsible exercise of legitimate shareholder preferences.

We also heard evidence that the government hasn't taken a hands-off approach in all matters. We have heard testimony in the past, and received confirmation from the GAO yesterday, for example, that in the case of AIG, the Federal Reserve Bank of New York participates in board and committee meetings, meets frequently with management, and has a large team of experts following many aspects of company activity.

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Fourthly, we ask: How has Treasury used its rights as dominant shareholder to preserve jobs, home ownership, pensions and life savings, as the law requires? The applicable statute is the Emergency Economic Stabilization Act of 2008, which sets out two fundamental purposes. One, of course, is to provide authority and facilities that the Treasury Secretary can use "to restore liquidity and stability to the financial system." The other, equally important and binding, is – and I am quoting here – "to ensure that such authority and facilities are used in a manner that –

(A) protects home values, college funds, retirement accounts, and life savings;
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Mr. JORDAN. Thank you, Mr. Chairman. And I want to thank you for holding this important hearing, and Mr. Allison for coming.

Congress and the American people were misled last fall when former Treasury Secretary Hank Paulson told us he needed $700 billion to buy troubled assets. Instead, he took the money and used it to partially nationalize the U.S. financial system.

As if that weren't bad enough, under both the Bush and Obama administrations over $80 billion of this money was used to bail out two auto companies, General Motors and Chrysler. President Obama has turned the TARP into little more than a political slush fund, doling out money to special interests under the guise of job creation.

This has to stop. Our country cannot sustain much more fiscal irresponsibility. In a year of record deficits, TARP needs to be wound down as soon as possible and the money applied to deficit reduction. Let me repeat. TARP needs to be wound down as soon as possible and the money applied to deficit reduction.

TARP has brought implications than just rising deficits, however. The use of public funds by the Federal Government to get its hooks in the private sector may have far-reaching consequences for freedom and prosperity in the United States. Bailed-out companies are merely responding to the whims of well-connected special interests and powerful politicians. These companies have ceased to be private enterprises and become arms of the government and its favored constituencies. This process threatens to stifle the innovation and competitive spirit that made America the great Nation that it is.

We need an exit strategy from TARP, and we need it now. Yet, the GAO told us yesterday that the administration's plans for an exit strategy are, "evolving." That does not sound encouraging. When you are headed down the road, progress is defined as turning around and getting back to where you need to be just as quickly as possible.

I want to thank Mr. Allison again for appearing before the committee today. I am eager to hear from him about what the administration's plans are to get us out from under this TARP and repay the American taxpayers as quickly as possible. The American people are suffering. Job losses and home foreclosures continue to take a terrible toll on ordinary Americans everywhere.

Robust economic recovery depends on restoring a stable economic environment based on a clear separation between government and business with predictable rules of the road. To get there, the Federal Government needs to stop making up the rules as it goes along and extricate itself from this ill-conceived adventure in crony capitalism.

As someone who voted against the TARP, I think I am on sure footing when I say that this has been a misguided chapter in American government, and one that we need to put behind us just as quickly as possible.

Thank you, Mr. Chairman, and I look forward to hearing from our witness.

Mr. KUCINICH. I thank the gentleman. The Chair will recognize Members in the order in which they came. Mr. Cummings is recognized. You may proceed.

Mr. CUMMINGS. Mr. Chairman, first of all, thank you for holding this hearing. Yesterday's hearing yielded a number of differing opinions on how the government should exercise its rights as a controlling shareholder. Unfortunately, none of the witnesses seemed to cite the administration's method as the best course of action. President Obama has publicly stated his preference that the government act as a passive investor in AIG, GM, Citigroup, and other firms, voting only on the most fundamental corporate governance issues.

Mr. Nader, on the other hand, argued persuasively that when the government has controlling interests in these firms, it has the responsibility to vote its interest actively, leveraging its position into real change at the firm in corporate governance, executive compensation, consumer protections, and corporate social responsibility.

The hearing was also valuable in that it reminded us that regardless of whether the government votes its shares actively or passively, that decision must be coordinated with our overall economic policy.

Independently but not unrelated, hours before the hearing convened yesterday it was reported that the Internal Revenue Service had ruled to grant Citigroup's exemptions from tax liability on $38 billion in future profits. By the government selling its 34 percent stake in Citi, the company stood to lose tax breaks on up to $38 billion in losses. Fortunately, the IRS came to Citi's rescue, providing a welcomed exemption.

While questions emerged almost immediately about the fairness of granting Citigroup such a benefit, what concerned me more about the story was a quote from financial market analyst Christopher Whelan, who doubted that Citigroup would emerge from this without having to soon raise capital again.

Further, last night it was reported that the market reacting to Citi's equity share offering was less than enthusiastic as shares sold at a substantial discount, and investors expressed concern that Citi was diluting shareholders in a desperate attempt to get out from executive payrolls. The discount led Treasury to announce that it would delay selling its stake in Citigroup.

Which leads me to the question that I hope Secretary Allison can address: If the market confidence in Citi is so low that the Government refuses to unload its shares at a loss, are we still comfortable that the firm does not present systemic risk and thus should be let out of risk reducing executive compensation restrictions?

In closing, Mr. Chairman, I look forward to Assistant Secretary Allison's testimony, and along with a continuing discussion on exercising shareholder rights, I hope we can get clarification on the status of the government's stake in Citigroup, the rationale for waiving our claims to extensive tax revenue, and whether this firm still presents a risk to the greater economy.

With that, Mr. Chairman, I yield back.

Mr. KUCINICH. I thank the gentleman. The Chair recognizes Mrs. Maloney.

Mrs. MALONEY. Thank you very much, Mr. Chairman. And thank you for your leadership and your attention to detail, and your leadership really and truly in so many areas. And thank you, Mr. Allison, for being here today.

The Great Depression was horrific. My mother and father lived through it. The stories they told me were absolutely horrible about the human suffering. And when the historical accounts are written of the Great Recession, the story of what the American people lived through and recovered from will have to be told in part with numbers. And the numbers of how the distress was felt is much less, partly because of the actions of this Congress, Treasury, FDIC, and the Federal Reserve.

The Troubled Asset Relief Program, voting for it as I did, was probably the most unpopular vote I ever cast but probably one of the most important. The alternative would have been the failure of our financial markets. People were calling me. There was a run on the money market funds. There were runs on the banks. And it was not until the Democratic leadership stood up and said they would join the Republican leadership in voting to stabilize our markets that the runs on the banks, the money markets, and other financial instruments held.

Christina Romer, before the Joint Economic Committee, testified that the economic shocks during the recession were far greater than the Great Depression. So what we lived through was truly a tremendous shock on our markets that could have brought down the American economy. And the Troubled Asset Relief Program, in fact, although unpopular, the financial system has stabilized. Markets are returning, not to the point we would like, but it has stabilized. And unlike the last month of the Bush administration where the unemployment numbers were 750,000, last month the unemployment numbers were 11,000. Too much for the families that have lost their jobs, but certainly trending in the right direction.

There has been a great deal of criticism of the Troubled Asset Relief Program, TARP, and therefore I put in a bill which passed the House of Representatives unanimously with bipartisan support to computerize and track the TARP money so that we know actually where it went, how it was spent so in the future we can do a better job and also putting sunlight on where we are going and what we are doing.

I do want to say on the Citigroup thing, I believe that Treasury made the right decision in terms of the American taxpayer not to buy the stock at a distressed amount but to wait until the stock improves in value so that we get a better return on our money. But my colleague raised some very good points that need to be addressed and, as always, he has a sharp pencil.

One of the most important things that passed in our financial recovery is the wind-down authority that we put into legislation. After the Great Recession, we had two choices: To let it fail like Lehman or to bail it out like AIG, neither of which is a good choice. When this legislation passes, we will have all financial institutions. The AIGs will be under the FDIC so that we can have an orderly wind-down. We lost over 130 banks with forced mergers, acquisitions, or wind-downs. We controlled it, and taxpayers' deposits were secure. With this new wind-down authority, we hope to have a better control over the entire financial markets should we have such a tragedy in the future.

In any event, this is an ongoing discussion and one that is important to the American people. I applaud the chairman for his attention.

Everyone told me that the hearing was canceled today, that surely he wouldn't be here because we weren't in session. And I said, no. I know Dennis Kucinich. He is having this hearing. And I was right.

Thank you, Mr. Chairman, for your steadfast work.

Mr. KUCINICH. Actually, we learned that CQ somehow sent out a notification falsely that this meeting had been canceled. But I didn't check with them; I decided to hold the hearing anyway.

The Chair recognizes Mr. Foster.

Mr. FOSTER. I would just like to briefly associate myself with the remarks of Congresswoman Maloney. She hit a number of very important points. One point which actually frequently gets misstated is the question of whether there has been some sort of bait and switch on the TARP funds. Those of us that actually read the legislation saw there was very clear authority for an emergency investment in large financial institutions. That was put in. If you go back and read my testimony in front of the Financial Services Committee, that was very carefully put in there, and it was recognized at the time that this would allow what was called at the time I think the Swedish-style bank rescue, to direct investments of banks under distressed conditions with a reasonable expectation of getting most of the money out. And because, frankly, the Democrats have competently managed this operation, I think it appears now that the taxpayers are getting out whole from their investments in the banks, which is tremendously to your credit. This requires good management and good oversight and careful attention to detail. We are going to find areas where not everything was done right. But in the big picture, getting out whole in our investments in the banks and large financial institutions is a tremendous accomplishment. And even if we don't quite accomplish it in the case of AIG, I think that we have to be careful also to distinguish the fraction of the money that went into large financial institutions to stabilize the emergency situation there and into the automobile companies where the motivation was, I believe, substantially different. There wasn't a systemic risk to the financial world, but a huge risk to the employment and the overall economy. There are different goals there, and the expectation of getting out 100 percent whole I think is going to be different in that case because the motivations were different. Anyway, I look forward to diving into the details on this.

I would also like to point out the Exxon letter, for people who only have time to read summaries on this, that Tim Geithner sent to Speaker Pelosi and to Harry Reid recently. I guess it is dated December 9th, and I think it has a very good summary of what you have accomplished, which is nontrivial, and the risks going forward which are also nontrivial.

Thank you. And I yield back.

Mr. KUCINICH. I thank the gentleman. If there are no other opening statements, I am going to introduce our witness.

Mr. Herbert Allison is Assistant Secretary of the Treasury for Financial Stability. Mr. Allison is responsible for developing and coordinating Treasury's policies on legislative and regulator issues affecting financial stability, including overseeing the Troubled Assets Relief Program. Prior to his public service, Mr. Allison was CEO of Fannie Mae and before that he was chairman, president, and CEO of TIAA-CREF. Mr. Allison began his career at Merrill Lynch, where he served many roles, ultimately becoming president, chief operating officer, and a member of the board.

Mr. Allison, this subcommittee appreciates your appearance here today. We look forward to your testimony, and also to the opportunity that you are providing us to answer questions about your involvement and the programs that you supervise. So you may proceed, and you have at least 5 minutes. If you need a little more, I am sure we can work that out. Go ahead.

Excuse me. I have just been reminded that all witnesses before our subcommittee are asked to be sworn in. So if you could please rise.

[Witness sworn.]

Let the record reflect that the witness answered in the affirmative. You may proceed.

STATEMENT OF HERBERT M. ALLISON, JR., ASSISTANT SECRETARY FOR FINANCIAL STABILITY, U.S. DEPARTMENT OF TREASURY

Mr. ALLISON. Chairman Kucinich, Ranking Member Jordan, and members of the subcommittee, thank you for the opportunity to testify before you today on the Troubled Asset Relief Program [TARP].

Last fall, to confront a financial system on the verge of collapse, Congress granted the Treasury Department authority to restore liquidity and stability to the U.S. financial system by purchasing and guaranteeing troubled assets. As a result of coordinated efforts, including those taken under the Emergency Economic Stimulus Act [EESA], confidence in the financial system has improved, credit is flowing, and the economy is growing. The Government is exiting from its emergency financial policies, and taxpayers are being repaid.

With the announcement this week of repayments by Citigroup and Wells Fargo, banks will soon have repaid nearly two-thirds of the total amount invested in banks under TARP. We expect a positive return from the Government's investments in banks. Investments are generating more income than previously anticipated, more than $15 billion so far, and we expect substantial additional income going forward. As banks replace Treasury investments with private capital, confidence in the financial system increases, the Government's unprecedented involvement in the private sector diminishes, and taxpayers are made whole.

It is clear today that TARP will not cost taxpayers $700 billion. Based on current commitments and plans, we expect total disbursements to be around $550 billion, with the overall cost of the program at least $200 billion less than the $341 billion projected in the August mid-session review of the President's budget.

The financial statements we just published estimate that the ultimate cost of the disbursements through the end of September will be about $42 billion. Treasury does remain an equity shareholder in a few institutions, and I would like to discuss the principles we follow in managing our investments.

First, as President Obama has stated, the U.S. Government is a shareholder reluctantly and out of necessity. We intend to dispose of our interests as soon as practical, with the dual goals of achieving financial stability and protecting the interest of taxpayers.

Second, we do not intend to be involved in the day-to-day management of any company. Government involvement in day-to-day management might actually reduce the value of these investments, impede the ability of the companies to return fully to being privately owned, and for us attainment of our broader economic policy goals.

Third, we believe an effective board of directors that selects and oversees capable management with a sound long-term vision should restore a company to profitability and end the need for government support as soon as practical.

Fourth, we take a commercial approach to the exercise of our rights as a shareholder. We will vote only on core shareholder matters, such as board membership, amendments to corporate charters and bylaws, mergers, liquidations, substantial asset sales, and significant common stock issuance.

Because financial conditions have started to improve, Treasury is now in a position to begin winding down TARP programs and to begin exiting from these investments. Our exit strategy for TARP balances the dual mandates of EESA to preserve financial stability and to protect the interests of taxpayers. We will exit these investments and return TARP funds to the Treasury as soon as is practical, consistent with the objective of avoiding further market and economic disruption.

In my written testimony I have outlined the specific situations, terms, and exit strategies surrounding our investments in AIG, Citigroup, and the auto companies, and I would be happy to answer any questions on those topics.

As I work with my dedicated colleagues in Treasury, we will continue to manage these investments prudently on behalf of the American people.

Thank you for having me here today. I look forward to answering your questions.

[The prepared statement of Mr. Allison follows:]

Written Testimony of Herbert M. Allison, Jr., Assistant Secretary for Financial Stability

Domestic Policy Subcommittee of the Oversight and Government Reform Committee

Chairman Kucinich, Ranking Member Jordan and members of the Subcommittee, thank you for the opportunity to testify before you today regarding Treasury's efforts under the Emergency Economic Stabilization Act of 2008 (EESA) and the Troubled Asset Relief Program.

As a result of our efforts under EESA, confidence in our financial system has improved, credit is flowing, and the economy is growing. The government is exiting from its emergency financial policies and taxpayers are being repaid. Indeed, the ultimate cost of those policies is likely to be significantly lower than previously expected.

While EESA provided the Secretary of the Treasury with the authority to invest $700 billion, it is clear today that TARP will not cost taxpayers $700 billion. We have funded $370 billion to date and, based on current commitments and plans, we expect total disbursements to be around $550 billion. We expect that the overall cost of the program will be at least $200 billion less than the $341 billion that was projected in the August Mid-Session Review of the President's Budget. The financial statements we just published estimate that the ultimate cost of the disbursements through the end of September will be about $42 billion.

With the recent announcements of repayments by Bank of America, Citigroup, and Wells Fargo, banks will have soon repaid nearly two-thirds of the total amount invested in banks under the program. We also expect a positive return from the government's investments in banks. Investments are generating more income than previously anticipated – more than $15 billion in income so far – and we expect substantial additional income going forward.

You have asked me to discuss our common equity investments in American International Group, Inc. (AIG), Citigroup, General Motors (GM), and Chrysler. I will discuss the reasons for these investments, the core principles that guide Treasury's management of these investments, and our strategy for exiting these investments. I am happy to talk with you about these subjects and look forward to your questions after my testimony.

Background to the Investments

In mid-September 2008, we were in the midst of one of the worst periods in our financial history. The economy was contracting sharply. Fear of a possible depression froze markets and spurred businesses to lay off workers and pull back from investment and lending.

Immediate, strong action was needed to avoid a complete collapse of the financial system. The Treasury, Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and other U.S. government bodies undertook an array of unprecedented steps to avert a collapse and the dangers posed to consumers, businesses, and the broader economy. However, additional resources and authorities were needed to help address the severe conditions our nation faced.

Recognizing the need to take difficult but necessary action to confront a financial system on the verge of collapse, Congress enacted EESA and granted the Treasury Department authority to restore liquidity and stability to the U.S. financial system by purchasing and guaranteeing troubled assets in a wide range of financial institutions.

Investments

Let me now give an overview of the government's investments in each of the four firms you have mentioned, and then discuss the particular issues you have raised.

AIG

The government's initial investments in AIG were not made by Treasury but were made by the Federal Reserve Bank of New York (FRBNY) before EESA was enacted. The circumstances that forced the government to act developed extremely quickly. Government officials with the Federal Reserve System, FRBNY, and the Treasury had no intention of providing support to AIG going into the weekend of September 13-14, 2008. After Lehman Brothers filed for bankruptcy on September 15, however, financial markets were shaken, AIG's condition worsened dramatically and the prospects of private sector support for the company vanished. Literally overnight, government officials were faced with a difficult choice, and a choice that had to be made immediately: either let AIG go bankrupt or provide support.

In light of the circumstances at the time, a bankruptcy of AIG would have had disastrous consequences. Chairman Bernanke has stated that it could have "resulted in a 1930's-style global financial and economic meltdown, with catastrophic implications for production, income, and jobs." Credit markets were already frozen, money market funds were already experiencing runs and interbank lending had already ceased. The commercial paper market had stopped functioning. One money market fund had already broken the buck, which triggered withdrawals by many investors from other funds. The dangers could have quickly escalated to a situation where we experienced runs on banks. In those circumstances, the global scope of AIG, its importance to the American retirement system, and its presence in insurance, commercial paper, derivatives and other financial markets all contributed to a situation where the risks of an AIG bankruptcy were simply too great.

Let me be clear on what those risks were. The risk was not simply the direct exposure of other financial firms to AIG or the direct effects of a default by AIG in the financial markets in which it participated. The indirect consequences of a bankruptcy of AIG were also of great concern. In hindsight, it is easy to forget the level of panic and fear that gripped the world that week. A bankruptcy of AIG would have dramatically increased that panic, and in a financial panic, events can quickly accelerate and become very difficult to contain. That was the danger we faced, and the authorities had to choose between acting to try to prevent further panic, or letting AIG go bankrupt and facing the consequences. They chose, rightly, to act.

Thus, on September 15, the FRBNY agreed to provide a credit facility to AIG and also received the right to acquire convertible preferred stock that represents approximately 80% of the voting rights of the common stock. The FRBNY later deposited this convertible preferred stock into the AIG Credit Facility Trust, a new independent trust that was established solely for this purpose. That trust continues to own the stock today for the benefit of the U.S. taxpayer. The trust is run by three trustees who are independent of the FRBNY and the Treasury. We do not control the exercise of the voting rights of that stock or its disposition.

Notwithstanding this intervention, the rating agencies felt that AIG had too much debt, and so in November, pursuant to the TARP authority, the Treasury invested in $40 billion of AIG preferred stock, which was used to reduce the FRBNY credit facility. In April Treasury restructured this investment and provided an additional preferred stock facility of $29.8 billion, of which only $5 billion has been drawn. Today, the Treasury has invested a total of $45 billion and we hold nonvoting preferred stock. The Treasury does not hold common stock in AIG.

Citigroup

Treasury invested $25 billion in Citigroup in October 2008. Citigroup was one of the first participants in the Capital Purchase Program (CPP). The CPP was the primary program established by the prior Administration under TARP. It provided for capital infusions into viable banks, and in return the Treasury received nonvoting preferred stock. This program was essential to averting a collapse of our financial system, as has now been acknowledged by many, including the Congressional Oversight Panel in its most recent report. In November 2008, Treasury announced a further investment of $20 billion in Citigroup which closed at the end of December 2008. Treasury also agreed to guarantee certain Citigroup assets, in return for which it received nonvoting trust preferred securities, a transaction which was executed in January 2009. In the spring and summer of 2009, Citigroup consummated a recapitalization in order to strengthen its capital base. Treasury, along with other investors, agreed to exchange preferred stock for common stock. Thus, today, Treasury holds common stock, in which it invested $25 billion and which currently has a market value of approximately $26.5 billion. Treasury also holds nonvoting trust preferred securities in Citigroup. As I discuss below, Citigroup has announced its intention to repay $20 billion of this investment and terminate other governmental assistance.

GM and Chrysler

Let me turn now to the automotive industry. Conditions in the credits markets made it hard for many households to finance the purchase of motor vehicles. This difficulty, exacerbated by deterioration in the cyclical state of the broader economy and other factors, led to reduced demand for motor vehicles, causing considerable financial stress to automobile companies, particularly GM and Chrysler.

Outright failure of GM and Chrysler would likely have led to uncontrolled liquidations in the automotive industry, with widespread devastating effects. Importantly, the repercussions of such liquidations could have included immediate and long-term damage to the U.S. manufacturing/industrial base, a significant increase in unemployment with direct harm to those both directly and indirectly related to the auto sector, and further damage to our financial system, as automobile financing accounts for a material portion of overall financial activity. Chairman Bernanke stated that a disorderly bankruptcy of GM or Chrysler "likely would result in material job losses and place further, meaningful downward pressure on U.S. economic performance" and that the state of the Detroit automakers posed "unique financial and economic challenges."

Therefore, the previous Administration provided initial assistance late last year to the automotive companies pursuant to TARP, including loans of $13.4 billion to GM to fund working capital and $4 billion to Chrysler. When the Obama Administration took office, it required the companies to develop long-term reorganization and viability plans before Treasury would provide additional assistance.

The Administration believed that requiring the companies to develop plans to become leaner and more efficient was the only way the companies could become more competitive and the only way to protect taxpayers' investments.

On March 30, 2009, the Administration determined that the business plan submitted by Chrysler failed to demonstrate viability and announced that in order for Chrysler to receive additional taxpayer funds, it needed to find a partner with whom it could establish a successful alliance. Chrysler made the determination that forming an alliance with Fiat was the best course of action for its stakeholders. The first GM plan submitted also failed to establish a credible path to viability, and the deadline was extended to June 1. Treasury loaned an additional $6 billion to fund GM during this period.

Treasury announced an Auto Warranty Program designed to give consumers considering new car purchases from domestic manufacturers the confidence that warranties on those cars would be honored regardless of the outcome of the restructuring process.

After acceptable plans were developed, certain assets of both GM and Chrysler (Old GM and Old Chrysler, respectively) were sold to newly created entities (New GM and New Chrysler, respectively) through the bankruptcy courts in exceptionally fast and efficient proceedings. Under debtor-in-possession financing agreements Treasury provided $30.1 billion to assist GM and $1.9 billion to assist Chrysler through their respective restructuring periods. Prior to advancing these funds, the Administration relied on commercial principles in determining the viability of these businesses and in structuring the terms of its investments. The government provided the minimum capital necessary to these companies to facilitate their restructurings. The new companies are now leaner and more efficient and poised to help further the ongoing economic recovery and the competitiveness of the American automotive industry.

The Auto Warranty Program was terminated after New GM and New Chrysler completed the purchases of Old GM and Old Chrysler assets. The $640 million advanced to Old GM and Old Chrysler under the program has been repaid to Treasury. Chrysler repaid the full amount with interest while GM repaid only principal.

Treasury converted most of its loans to the Old GM into $2.1 billion of preferred stock, a 60.8 percent share of the common equity in the New GM and a $7.1 billion debt security note. $360 million of Treasury's debt in the new GM was immediately repaid with the termination of the Auto Warranty Program, leaving $6.7 billion of loans outstanding.

Today, Treasury holds 60.8% of the common stock of GM, as well as $2.1 billion of preferred stock and $6.7 billion in loans. Treasury holds 9.9% of Chrysler's common stock as well as a loan of $5.1 billion. On or after Dec. 31, 2014, GM may redeem the preferred shares at $25 per share plus any accrued and unpaid dividends, subject to limited exceptions.

Treasury as a Shareholder

I would like to now turn to your question as to what objectives guide us in exercising our rights as a shareholder.

As noted earlier, Treasury does not own voting stock in AIG. The AIG Credit Facility Trust owns the voting stock, and you may wish to speak to the trustees as to the principles they follow in exercising those voting rights. The principles we follow with respect to our common stock investments in Citigroup, GM and Chrysler are as follows:

First, the U.S. government is a shareholder reluctantly and out of necessity. We intend to dispose of our interests as soon as practicable, with the dual goals of achieving financial stability and protecting the interests of the taxpayers.

Second, we do not intend to be involved in the day-to-day management of any company. Our responsibility is to protect the taxpayers' investment. Government involvement in the day-to-day management of a company might actually reduce the value of these investments, impede the ability of the companies to return fully to being privately owned, and frustrate attainment of our broader economic policy goals.

Third, establishing an effective board of directors that selects management with a sound, long-term vision should restore a company to profitability and end the need for government support expeditiously. Where companies require a substantial amount of new government resources, Treasury reserves the right to set upfront conditions to ensure that our assistance is deployed in a manner that promotes economic growth and financial stability and protects taxpayer value. When necessary, these conditions may include changes to the existing board and management.

Fourth, the government's role as a shareholder is to manage its investment, not to manage the company. We take a commercial approach to the exercise of our rights as a shareholder. We will vote only on core shareholder matters such as board membership, amendments to corporate charters or bylaws, mergers, liquidations, substantial asset sales, and significant common stock issuances.

We have incorporated these principles into legal documents in the case of Citigroup and GM, where we are substantial shareholders.

The Shareholders Agreement between Treasury and Citigroup provides that Treasury will exercise its right to vote only on certain matters. These matters consist of the election or removal of directors, certain major corporate transactions such as mergers, sales of substantially all assets, and dissolution, issuances of equity securities where shareholders are entitled to vote, and amendments to the charter or bylaws. On all other matters, Treasury will vote its shares in the same proportion (for, against or abstain) as all other shares of the company's stock are voted. We do not have any board seats in the case of Citigroup.

We own 60.8% of the common stock of GM. The other shareholders are: GM Voluntary Employee Benefit Association (17.5 percent), the Canadian Government (11.7 percent), and Old GM's unsecured bondholders (10 percent). We have designated ten of the thirteen of the directors. We expect our ownership to decline once GM goes public. The Shareholders Agreement between Treasury and GM provides that after GM's expected public offering, Treasury will exercise its right to vote only on certain matters. These matters consist of the election or removal of directors (provided that Treasury will vote in favor of individuals nominated through a certain pre-designated process, and individuals nominated by the GM Voluntary Employee Benefit Association), certain major corporate transactions such as mergers, sales of substantially all assets, and dissolution, amendments to the charter or bylaws, and matters in which Treasury's vote is necessary for the shareholders to take action (in which case the shares will be voted in the same proportion (for, against or abstain) as all other shares of the company's stock are voted).

In the case of Chrysler, we have 9.9% of the common stock. Approximately 67.7% is owned by the Chrysler Voluntary Employee Benefit Association, 20% by Fiat and 2.5% by the Government of Canada. We have designated three of Chrysler nine directors, and our designees, in turn, have designated one more of the nine directors.

Oversight and Compliance

Although we do not participate in day-to-day management of Citigroup, AIG, Chrysler and GM, I'd like to point out several additional protections and enhanced reporting requirements that help ensure accountability and protect the value of our investments in these entities.

Executive Compensation

First, with respect to compensation, in June 2009, Treasury published the Interim Final Rule (the "Rule") on executive compensation, promulgated under the EESA as amended by the American Recovery and Reinvestment Act of 2009. The Rule contains distinct requirements for recipients of TARP funding under certain programs, including CPP participants and recipients of exceptional assistance. Citigroup, AIG, GM and Chrysler are all recipients of exceptional assistance subject to these special requirements.

The Rule established the Office of the Special Master for TARP Executive Compensation (Special Master), and provided the Special Master with specific powers designed to ensure that executive pay at these firms is in line with long-term value creation and financial stability. For recipients of exceptional assistance, the Special Master is required to review and approve compensation structures, including payments made pursuant to those structures, for the senior executive officers and 20 next most highly paid employees, and to review and approve compensation structures, but not payments made pursuant to those structures, for all other executive officers and the next 75 most highly compensated employees. The Special Master is supposed to make sure, among other things, that compensation does not result in excessive risk taking, that it is linked to performance, that it is competitive and that the firms whose compensation he reviews can pay back the government for the investments.

The Special Master will automatically approve proposed compensation to employees whose total annual compensation is not more than $500,000, with any additional compensation paid in the form of long-term restricted stock. This "safe harbor" rule is designed to encourage TARP recipients to use compensation structures that link compensation to long-term firm value.

On October 22, 2009, the Special Master, Kenneth R. Feinberg released determinations on the compensation packages for the top executives at these firms. The Office of the Special Master generally rejected the companies' initial proposals for the top 25 executives and approved a modified set of compensation structures with the following features:

- Cash salaries generally no greater than $500,000, with the remainder of compensation in equity.

- Most equity compensation paid as vested "stock salary," which executives must hold until 2011, after which it can be transferred in three equal, annual installments (subject to acceleration on the company's repayment of TARP funds).
- Annual incentives payable in long-term restricted stock, which requires three years of service, in amounts determined based on objective performance criteria. Actual payment of the restricted stock is subject to the company's repayment of TARP funds (in 25% installments).
- $25,000 limit on perquisites and "other" compensation, absent special justification.

On December 11, 2009, the Special Master released his second round of rulings on executive compensation packages for firms that received exceptional TARP assistance. These determinations cover compensation structures for the next 75 most highly compensated employees plus executive officers, who were not subject to the October 22 decisions, and are designed to protect long-term value creation and financial stability,

The determinations cover AIG, Citigroup and GM. Chrysler was exempt from the Special Master's review during this round because total pay for Chrysler executives does not exceed the $500,000 "safe harbor" in the Rule.

The Special Master announced a set of compensation structures with the following features:

- Cash salaries generally no greater than $500,000, except in exceptional cases as specifically certified by the company's independent compensation committee.
- Cash is limited in most cases to 45 percent of total compensation. All other pay must be in company stock to align executives' interests with long-term value creation and financial stability, and therefore taxpayer interests.
- At least 50 percent of each executive's pay must be held for at least three years, aligning the pay each executive actually receives with the long-term value of the firm.
- Incentives may be paid only if the company sets, and the executive achieves, objective performance measures, reviewed by the Special Master, that align executives' interests with those of shareholders and taxpayers
- The total incentives for all of the covered executives will be strictly limited to an aggregate "pool" based on a specified percentage of eligible earnings or other metrics determined by the compensation committee and reviewed by the Special Master. A larger payment to one executive will require a smaller payment to another, so companies will be forced to make careful assessments as to which executives performed best and deserve a bigger slice of the pie.

- At least half of the incentive compensation must be paid in the form of company stock that must be held for at least three years.
- Any incentive compensation paid to the covered executives will be subject to "clawback" if the results giving rise to the payment do not hold up over the long term or an executive engages in misconduct.

Like all recipients of TARP funds, Citigroup, AIG, GM and Chrysler must also adhere to the general corporate governance standards and limits on executive pay set forth in EESA. These executive compensation requirements state that bonuses or incentive compensation paid to any of the senior executive officers or the next 20 most highly compensated employees based on materially inaccurate earnings must be repaid. No golden parachute payments may be made to a senior executive officer or any of the next five most highly compensated employees, compensation in excess of $500,000 per executive may not be deducted for tax purposes, and the companies must establish a compensation committee of independent directors to review employee compensation plans and the risks posed by these plans.

Other Reporting Requirements

Next, with respect to enhanced reporting, Chrysler and GM must provide financial information on a regular basis to Treasury, including a report each quarter setting forth in reasonable detail the actual use of the TARP funding they received upon exiting from bankruptcy. Treasury uses this information to monitor the financial condition of Chrysler and GM.

Chrysler and GM must also report to Treasury if actions occur that could result in the companies failing to meet the minimum funding requirements for their pension plans, or if the companies plan to terminate any of their plans.

AIG and Citigroup, as recipients of exceptional assistance, must maintain and implement comprehensive written policies, approved by Treasury, on executive compensation, lobbying, governmental ethics and political activity, and must maintain internal controls with respect to compliance with these requirements, and provide quarterly compliance reports.

Other requirements

With respect to U.S. production volume, Chrysler and GM must produce a portion of their vehicles in the United States. Chrysler must either manufacture 40% of its U.S. sales volume in the United States or its U.S. production volume must be at least 90% of its 2008 U.S. production volume. GM agreed to use its commercially reasonable best efforts to ensure that the volume of manufacturing conducted in the United States is consistent with at least 90% of the level envisioned in GM's business plan. Chrysler and GM must have internal controls to ensure compliance with these U.S. production volume requirements.

Portfolio Management Approach

Now, I'd like to turn to your question about our portfolio management approach.

In managing the TARP investments, Treasury takes a disciplined portfolio approach, and employs a mix of dedicated professionals and external asset managers. Treasury employees monitor risk and performance at both the overall portfolio level and the individual investment level, and conduct sensitivity analyses to contextualize the results. External asset managers provide market-specific information such as market prices and valuations as well as detailed credit analysis using public information on a periodic basis.

Treasury tracks the fair market value of the assets in the TARP portfolio, measuring the value of publicly-traded common stock by market quotations, and measuring other assets with market-based valuation models it developed in consultation with external asset managers and in compliance with EESA.

Risk Assessment

Treasury has developed risk assessment procedures to identify TARP recipients that are in a significantly challenged financial condition. Treasury's external asset managers review publicly available information to identify recipients for which pre-tax, pre-provision earnings and capital may be insufficient to offset future losses and maintain required capital. Treasury is prepared to take appropriate action in these circumstances to preserve the taxpayers' investment and maintain financial stability. We will work with management and other security holders to improve the financial condition of the company, including through recapitalizations or other restructurings, and take other actions that would be taken by large private investors dealing with troubled investments.

Exit Strategy

The TARP investments were not made to make money but to help avert a collapse of our financial system. Treasury used its authority under EESA to make investments that have helped to restore confidence in our banks and restart markets that are critical to financing American households and businesses. Because financial conditions have started to improve, Treasury is now in a position to begin winding down TARP programs that helped put large banks and the auto companies on a sounder footing, and to begin exiting from these investments. Our exit strategy for TARP balances the dual mandates of EESA to preserve financial stability and protect the interests of taxpayers. We will exit these investments, and return TARP funds to the Treasury, as soon as is practicable, consistent with the objective of avoiding further market and economic disruption.

Exit Strategy – AIG

Treasury holds preferred stock in AIG. AIG is presently engaged in a restructuring initiative that would allow it to sell AIA and Alico, its international life insurance businesses, in an initial public offering or a negotiated sale to a third party buyer, and use the proceeds to pay off its obligations to the FRBNY.

In anticipation of those sales, AIG and the FRBNY recently completed an exchange of debt for preferred equity interests in AIA and Alico, entitling the FRBNY to the first dollars from the sale of those businesses. We anticipate that those sales will occur sometime in 2010 or early 2011.

Upon the repayment in full its debt to the FRBNY, AIG will then focus on building value in its remaining insurance businesses, Chartis, Domestic Life and Retirement Services and American General and Valic, as well as ILFC, its aircraft leasing business, and American General, its consumer finance business.

AIG is continuing to make progress in the "wind down" of its financial products unit. The unit's notional exposure is now $1.0 trillion, versus $2 trillion in September 2008. It is now anticipated that the wind down process will be substantially completed by the end of 2010.

AIG and Treasury are in active, ongoing discussions with regard to strategies to allow Treasury to monetize its investment in AIG, once the FRBNY has been paid in full.

Exit Strategy – Citigroup

Treasury holds common stock in Citigroup. Treasury also holds Citigroup trust preferred securities, which are senior in right of repayment to preferred stock but otherwise have many similar terms. The preferred stock is redeemable, subject to a determination by the Federal Reserve that Citigroup has sufficient capital to repay Treasury.

This week, the Federal Reserve agreed to allow Citigroup to repay Treasury for $20 billion of the trust preferred securities and to terminate its loss-sharing agreement with Treasury.

To facilitate the repayment, Citigroup proposes to issue $20.5 billion of securities, comprised of $17 billion of common stock and $3.5 billion of tangible equity units.

Citigroup also entered into a loss sharing agreement with Treasury, the FDIC and the Federal Reserve Board under which the U.S. government parties agreed to share in the losses on a pool of assets that was initially $300 billion. Citigroup will terminate the U.S. government's obligations under this arrangement, which originally would have run for 10 years. The government will retain $5.2 billion of the $7.0 billion in trust preferred securities issued to the U.S. government effectively as the premium for this 10 year insurance. As a result of the repayment, Citigroup will no longer be deemed to be a beneficiary of "exceptional assistance" under TARP beginning in 2010.

Following completion of the repayment and cancellation of the loss-sharing agreement, Treasury will continue to hold Citigroup common stock with a market value of approximately $26.5 billion. We expect to sell these common shares in an orderly fashion within six to twelve months subject to an initial 90-day "lock-up" period after the secondary offering.

Exit Strategy – Auto Companies

Treasury' investments in GM and Chrysler consist of loans and equity investments. The loans must be repaid by certain dates. The GM loan was recently amended to require quarterly mandatory prepayments of $1 billion from existing escrow amounts in addition to the obligation for such funds to be applied to repay the loan by June 30, 2010, unless extended. In addition, the loan matures in July 2015. A portion of the Chrysler loan also matures in December 2011 and the balance in June 2017. Chrysler plans to repay the loan fully prior to maturity.

Treasury holds common stock and preferred stock in GM and common stock in Chrysler. Because the companies are not publicly traded there is no market for the common stock at this time. Pursuant to its operating agreement, GM will attempt a reasonable best efforts initial public offering by July 10, 2010, the one-year anniversary of its exit from bankruptcy. The government is most likely to exit its GM investment by gradually selling shares in the market following a public offering. For Chrysler, the exit strategy may involve a similar gradual sell off of shares following a public offering or a negotiated private sale to a third party buyer.

Need for Reform

Treasury and other institutions of government have accomplished a great deal in a short amount of time to achieve financial stability, a necessary precondition to the resumption of economic growth. As we look ahead, we must also not forget the lessons we have learned from this period. We need to reform our laws to provide stronger, more effective regulation of our financial system and to protect consumers. Doing so will decrease the need for future intervention. Reforming our regulatory system in a way that is stronger and better suited to manage risk and ensure safety and soundness must be our highest priority. The Administration has proposed a number of measures in this regard.

To make the system more stable, we have proposed requiring financial institutions to hold more capital and manage liquidity risk more effectively; closing statutory loopholes; requiring stronger federal supervision of all major financial firms; putting the market for over-the-counter derivatives under a comprehensive system of regulation; evolving the Federal Reserve's authority to create a single point of accountability for the consolidated supervision of all large, interconnected firms; and creating a Financial Stability Oversight Council to bring together all regulators to identify emerging risks and coordinate responses.

And to provide the government better tools to respond to future crises like those facing us in the fall of 2008, without disrupting the broader financial system or putting taxpayer dollars at risk, the Administration has proposed giving the government new emergency authority to resolve a significant, interconnected financial institution. The Administration's proposal gives the government a legal mechanism, similar to the authority that the FDIC already has for managing the closure of insured depository institutions, to more effectively manage the wind down of large non-bank financial institutions in a way that protects taxpayers.

Conclusion

Ending the financial crisis is not primarily about helping banks, but about restoring the flow of credit to consumers and businesses and alleviating the real hardships that Americans face every day. Healthy and vibrant financial institutions are critical for this, as they are the key sources of a range of financial services that we depend on every day. Without healthy banks, consumers cannot access the credit they need to buy a home, finance an education, manage everyday expenses or make other financial commitments. Small businesses cannot buy the new equipment, raw materials and inventory that they need to expand. Larger businesses cannot make the continuous adjustments required to function in a changing global marketplace.

It is with these goals in mind that we have created the programs under the TARP and the Financial Stability Plan. As I work with my dedicated colleagues in Treasury on these programs, we will continue to manage these investments prudently on behalf of the American people, and dispose of them as soon as practicable.

Thank you.

Mr. KUCINICH. I thank the gentleman. We are now going to go to questions. I will begin with 5 minutes. Each Member will have 5 minutes to ask questions. If necessary, we will go to a second round.

I would like to talk about Citigroup. Prior to divesting shares in Citi, what notification do you plan to give to this committee?

Mr. ALLISON. We intend to be divesting of the shares over the next year. We believe that by gradually selling the shares we will be in a better position to achieve the best possible prices for the American public. We are going to be—and we already have stated our approach to divesting of the shares. So it will be a gradual process.

Mr. KUCINICH. Are you going to notify this committee when you are going to do that? Are you going to let us know?

Mr. ALLISON. We will begin selling the shares after the next 90 days.

Mr. KUCINICH. When you are in the process of selling these shares, are you going to have any communication with the oversight committee about this?

Mr. ALLISON. We will be happy to speak with the staff of the committee and the members of the committee at any time, Mr. Chairman.

Mr. KUCINICH. It would be, I think, advisable given the questions raised about responsibility of Government as a passive shareholder to not be passive with the subcommittee on these matters.

What accounts for the timing of your decision to permit, then to reverse your decision to allow Citi to exit from the TARP?

Mr. ALLISON. Well, let me say first, Mr. Chairman, thank you for your question. We don't make the determination of when Citi can repay the Treasury for our investment in the company. That decision is made by the regulator, and under the provisions of the ARRA law, we must follow permission that is given by the——

Mr. KUCINICH. The regulator, meaning?

Mr. ALLISON. The regulator, meaning the Federal Reserve in this case, and also in consultation with the——

Mr. KUCINICH. So it is the Federal Reserve that decides when to exit the TARP, and the Federal Reserve does it at their choosing? Or who chooses? How do we know who makes the choice whether to exit the TARP? How do we know whether it is the banks who are deciding or the Federal Reserve? Do you know?

Mr. ALLISON. The regulators decide, Mr. Chairman, on when it is appropriate for a bank to repay the Treasury.

Mr. KUCINICH. Is that a transparent process, Mr. Allison, or is that pretty much done over at the Fed without any report to you?

Mr. ALLISON. That is a matter for the regulator.

Mr. KUCINICH. Well, they are a regulator but we are the shareholder. When do we find out? When do you find out? Do you find out when you read about it in the newspaper?

Mr. ALLISON. When the regulator informs us that——

Mr. KUCINICH. When the Fed informs you?

Mr. ALLISON. Yes, sir. In this particular case, or it could be in other ones as well.

Mr. KUCINICH. Let's talk about this, but the Fed informs you.

Mr. ALLISON. Yes.

Mr. KUCINICH. The Fed doesn't ask you if you have any position on this; they just tell you they are doing it. Is that what you are saying?

Mr. ALLISON. We don't have regulatory oversight over the banks. That is a matter for the regulatory agencies.

Mr. KUCINICH. But we are holding all these billions in shares. Shouldn't the government have any ability to decide when the banks would exit from TARP?

Mr. ALLISON. We are following the laws enacted by Congress, Mr. Chairman, as to how we will dispose of the shares, and that is with the approval of the regulator.

Mr. KUCINICH. Do you have to agree with the banks whether they are healthy or not, or does the Fed agree with the banks whether they are healthy? You don't talk to the Fed and you just go on with whatever they tell you?

Mr. ALLISON. We have conversations with the regulatory agencies, but we do not make the decision as to when a bank is ready and able to repay us.

Mr. KUCINICH. Members of the committee, we have a problem here where the Fed might let someone out of the TARP but it might be adverse to the interest of the taxpayers of the United States of America. I just want to point that out. This is a strange system we have set up here. We were not only talking about passive shareholders, but we are talking about shareholders who don't know nothing. That is a problem. Now.

Mr. FOSTER. If the chairman will yield for a moment?

Mr. KUCINICH. No. Will Citi shareholders be given an opportunity to vote on any planned share buyback? Do you know?

Mr. ALLISON. Under the bylaws of Citigroup, the bylaws would determine the rights of the shareholders in that case.

Let me also say, if I may, that each of the banks that has repaid us has raised capital in the public markets. They are replacing when they repay us government capital with higher quality capital raised in the private markets. And so far, as I mentioned, we have received about two-thirds of the investment back on behalf of shareholders from the banks. They have raised about $150 billion of capital in order to be able to repay us and we have received about $160 billion.

Mr. KUCINICH. Mr. Allison, we are going to get into that discussion. My time has expired. I am going to go to Mr. Jordan in a moment. But we are going to get into the discussion about how it is that banks are able to raise this money in the private markets while they are still under TARP and how the assets that they are holding have been upwardly evaluated through changes and accounting procedures that enables their stock to go up. Then they get more money and pay off the Government. I just wonder if we are just in another funny money economy where the taxpayers are going to get hosed again.

Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman. I think the chairman's questions point out to the simple fact that Treasury gets to decide when the money goes in but not when it comes out. And one of the many problems I think underscoring the fact that we should have never got into this whole bailout program to begin with, I think the last 2 days we have seen two news stories, the story yesterday that the chairman brought up, I think Mr. Cummings brought up in his opening statement about Citigroup's bailout repayment and the impact that has on the taxes that the company owes. And then today's Wall Street Journal with: Treasury halts plan to hold off Citi stock because they weren't going to get back what they paid for.

I mean, so we have two news stories, that just again highlights in my mind the fact that we should have never started down this road to begin with because once you do it just brings on a whole host of problems. But I want to go to this fact. And contrary to Mr. Foster's opening statement where he, I think, tried to rewrite history a little bit, the fact is the Congress was misled. In fact, Mr. Allison, in your opening statement you said that TARP was created to purchase troubled assets. Direct quote from your opening statement. But that is not what took place. In fact, we had Ms. Bair in front of this committee just last week. She was at the meeting 9 days after the TARP was passed where the nine biggest financial institutions were brought to this town. She indicated she was in that meeting, and her direct statement when questioned, when I asked her was, it took her breath away—took her breath away what took place at that meeting where Hank Paulson, Ben Bernanke, Hank Paulson slid a piece of paper over and said "You will take this partial nationalization of your bank. You will take this TARP money not to buy, just inject capital into the bank."

And so we have the history and the record that we got from all the various hearings we have had over the last year, but now we finally have it in writing. I don't know if you read Mr. Wessel's book, In Fed We Trust, but there is a quote there on pages 226–227 of the book. And I am reading from the book now.

"The House of Representatives rejected the Bush administration's bank rescue plan on Monday, September 23." Remember, last fall there was the first vote that lost, then a few days later came back to the Congress, and the vote that passed the TARP program lost the vote 228–205. The next morning, according to Mr. Wessel's book, Mr. Paulson ran into Michele Davis, his spokeswoman and policy coordinator in the Treasury building. "I think we are going to have to put equity into the banks." He said. Despite what Paulson had told Congress, buying toxic assets was going to take too long. Davis gave him a blank stare and said this, 'We haven't even gotten the bill through Congress.' She remembered thinking, 'How are we going to explain this?' She told her boss, 'We can't say that now.' And he took the advice."

So we know what happened here. They came to Congress. They couldn't come to the Congress and say, hey, give us a bunch of taxpayer money. We're going to go give it to the bank. They had to come up with some scheme to buy troubled assets, and that is what they sold the whole package to the Congress about.

So I just want to ask you, Mr. Allison. Do you think the Congress of the United States was misled in this? The start of this whole program, do you think Mr. Paulson misled the Congress of the United States last September and last October?

Mr. ALLISON. Thank you, Member Jordan. First of all, the EESA law allows the Treasury to purchase preferred stock and other forms of stock from these banks. I think we have to look back at the situation at the time.

Mr. JORDAN. Mr. Allison, do you remember back at the time, though, you can say that in your opening statement they purchased troubled assets. The whole debate, the whole debate was about purchasing troubled assets last fall. And I think you talk to just about any Member of Congress and they will tell you, maybe with the exception of Mr. Foster, they will tell you that was the premise of the entire package presented to the Congress of the United States last fall.

Mr. ALLISON. I know that this has been a question that has been asked many times. However, if we look at the EESA law, it clearly was the authority granted to the Treasury to buy troubled assets. Troubled assets are broadly defined. It was deemed at that time by the people who were responsible in the Treasury Department and the regulators and elsewhere that it would be more efficient use of the authorization. In order to stabilize the financial system at that time, which was on the verge of a catastrophic meltdown, the most efficient way of doing that they felt was to purchase equity shares.

Now, I think we have to look at what has been going on.

Mr. JORDAN. Let me change directions. I have a few seconds here if I could.

Twice in your testimony you said this should be wound down as soon as practical. Twice you said that in your opening statement.

How does the actions that the House of Representatives took yesterday with the so-called second stimulus using TARP dollars for, "job creation," the fact that Mr. Obama has said he supports that, how does that square with what you said twice in your opening testimony about winding this down as quickly as we can?

Mr. ALLISON. Our responsibilities are to promote financial stability and protect the interest of taxpayers. We are managing the investments that were made under the EESA law with the intention——

Mr. JORDAN. Mr. Allison, how does that square with winding this down as quickly as possible, your testimony; twice you said that in your opening statement, with the idea that we are now getting completely away from the mission of TARP, whether it was allowing equity or not? The whole job creation stimulus II package, actually, how does that square with winding it down?

Mr. ALLISON. Those are decisions that will be made by Congress, and our job in managing the TARP is to try to wind down this program as quickly as is responsibly possible while also maintaining financial stability. And that is exactly what we are doing, and that is why already we have received two-thirds of the assets that we invested back from the banks, and we have done so at a profit for taxpayers.

Mr. KUCINICH. I thank the gentleman. The gentleman's time has expired. The Chair recognizes Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. And I thank you, Mr. Allison. You know, Mr. Secretary, I have continued to insist that the administration explore all avenues available for preventing further foreclosures in our communities. And not too long ago Secretary Geithner appeared before the Joint Economic Committee, upon which I sit, and we were talking about foreclosures. This was before the most recent efforts on the part of the President to push the banks to do what they are supposed to do, and that is help people get the modifications quickly. But he said something that I have thought about a lot, and I just want your reaction to it, and I didn't get a chance to ask him to followup on this.

I said to him: A lot of people in my community, in my district are losing their houses, and it is a very sad sight and a very painful sight. And I said to him these are people who did not get subprime loans, these are prime. These are people who have lost thousands through no fault of their own in many instances because they lost their jobs. And I asked him, I said, you know, we really do need to do a short-term emergency loan kind of, have that kind of effort. And I understand that Barney Frank has that in his bill that we just passed. But he said something that really bothered me. He said, Well, Mr. Cummings, there are some people that we just won't be able to help. In other words, he was saying they have just got to fall by the wayside. And for some reason that thing has haunted me, because when it came to the banks, we didn't say that. We didn't say they have just got to fall by the wayside. We gave them billions upon billions of dollars. And I am just wondering, and—I just am wondering, it seems to me sometimes a lack of sensitivity with regard to the person on the street, on Main Street, and then—and how the—then when we compare how Wall Street is treated.

And I am telling you that I am a big supporter of President Obama, probably no one more loyal. But I have to tell you that in order for him to get his economic efforts, to be most effective and efficient in his economic efforts to straighten our economy out, you have to help the American people. They have to believe that there is something coming out of this for them. That is what underlies a lot of the angst that we hear every day.

So I am just wondering, what do you see with regard to these foreclosures? Because I am telling you, it is just not the pain, it is also the draining of communities, property values going down, tax revenues going down. I mean, it is just a vicious cycle. And, guess what, those people have to live somewhere.

So I am just wondering, can you comment on that for me.

Mr. ALLISON. Sir, first of all, let me thank you for your comments and your questions. The administration certainly shares your deep concerns about the American public, about people losing their homes. And that is why one of the first acts that the President took when he entered office was to establish the Making Home Affordable Program which we are administering. And that is aimed at keeping people in their homes. And so far we have expanded that program to help over 700,000 homeowners who are saving on average $550 a month in their mortgage payments.

We have shifted also the focus of the TARP program, which initially placed large amounts of money in banks in order to stabilize the financial system, and without that there would be far more people unemployed and losing their homes.

But in this administration we have put very little money into banks, only about $7 billion. We have received back $160 billion, and we have now focused this program on promoting home ownership, helping small business through small banks in part, and helping the securitization markets which are responsible for providing a lot of the credit that is available to American households.

Mr. CUMMINGS. I am running out of time. Let me just ask you this. With us owning say, for example, us having so much equity in some of these banks, I know the President says take a passive position and all that. But it seems to me that we ought to be able to use more than just a conversation and strong talk to get these folks to do the right thing. Because I think a lot of us who voted for the bailout and whatever were of the opinion that people would be able to get the loans and whatever. And I am just wondering, people, normal, average people say, gee, if we own part of it, we ought to be able to get certain things done.

Could you just comment on that? I see my time is up.

Mr. ALLISON. We are meeting with the banks very frequently. We have had them come in four times in the last few months to meet with us, to talk about and to improve the Making Home Affordable Program. We are making considerable progress. We are not satisfied by any means, we are not where we need to be, but we are helping more and more people very rapidly today. We still want to be encouraging the banks to work even harder and more effectively. We are meeting with housing counselors. We are holding events all over the country to bring in homeowners, to acquaint them with this program. We have streamlined the program a great deal so it is easier for people to provide the documentation, to get a permanent modification.

And there is still more that we can be doing. We are looking at how we can help more unemployed. For example, currently the program provides that if a person is unemployed and they are going to be receiving at least 9 months of unemployment insurance, they are eligible for a modification. We are seeing whether we can enhance that program further.

But let me also say that the Obama administration is not relying only on the EESA programs under TARP to help homeowners. The Economic Stimulus Act and all the many activities of HUD and others in the administration are working very hard through housing agencies and State and local governments to help people keep their homes.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Mr. KUCINICH. The Chair recognizes Mr. Turner for 5 minutes.

Mr. TURNER. Thank you, Mr. Chairman. I appreciate your continued efforts to work on this issue and to bring to light some of the disparities that I think happened in the application of these funds.

I voted against the TARP program, and I voted against applying the TARP moneys to General Motors. And I did that because I believe that the legislation itself was undefined as to its goals and objectives, undefined as to how it was going be accomplished, that it could result in inequities. I come from Ohio, like the chairman and Ranking Member Jordan, so I am from Ground Zero of the mortgage foreclosure crisis. And I didn't see in the TARP anything that was going to result in targeting the real problem that resulted in the financial crisis. I believed it was going to reward those who were the bad actors and in fact leave the American people, those who were either in neighborhoods where foreclosure was rampant or those themselves that were foreclosed, without having any significant help.

Having said that, though, I do want to thank you for your dedication. I am certain that as you approach these issues you have in your heart an absolute dedication to moving this country forward and to ensuring our financial stability, and I appreciate you coming forward so we can ask questions of some of those issues that either need to be addressed or information for us so that we know t hat we shouldn't do it this way again.

My two areas of concern relate to the General Motors bailout. In your testimony, in one of the paragraphs, you end that paragraph by saying: The new companies are now leaner and more efficient, and poised to help further the ongoing economic recovery and the competitiveness of the American automotive industry.

The problem with that leaner and more efficient is it translates directly to the issue of jobs, commitments to retirees, commitments to employees. And that is an area where I have significant concern, because in my community General Motors closed its plant, Delphi closed its plant. Delphi walked away from its pension obligations to the salaried workers. 21,000 salaried workers were treated differently than their coworkers that they worked side by side with, having losses of substantial portions of their pensions that not only did they depend on for their future but they earned. And this is being done in the name of a leaner and more efficient company as they are pushed aside, and creditors, some of which are being honored instead of the honoring of the employees who made the company successful in the past, the company's failing through no fault of their own, as they showed up every day and were dedicated to the success of Delphi and General Motors.

So my two questions are: Could you please speak for a moment about the Delphi pension issue and the disparate treatment that the workers received? I think it is unfair, and I believe that this should have been handled differently. And there were great opportunities as the administration was at the table in the negotiations of the bankruptcy deals and the terms where people could have been honored instead of cast aside in the name of more leaner and more efficient.

The second thing is this issue of jobs going offshore. I personally believe that, when this is all said and done, that there will not only be less jobs in the United States in the vein of having them more efficient, but there will be more jobs overseas for General Motors, for their suppliers, their direct investments and their partnerships. And I would have thought that would have been a goal of the administration to ensure that the jobs remain here in America; that we don't take taxpayers' money and finance, in effect, jobs going offshore so it weakens our economy in the future, the suppliers that would have supplied those jobs, the individuals that would have held those jobs lose that opportunity.

So I am very concerned on those two areas. One, the loss of the pensions to the people that were in Delphi, and, two, the loss of jobs overseas. Could you speak to that?

Mr. ALLISON. Thank you very much, Congressman, for the question. The administration is very concerned about job loss, obviously. It has been extremely active in trying to reduce the unemployment rate, and also to begin to rebuild this economy in ways that can create far more jobs for the American public.

If we look back on the actions taken to rescue General Motors and Chrysler, without those actions hundreds of thousands of more jobs would have been lost, not just in those companies but in the suppliers and the dealers and the large network that is the auto industry in the United States. So we would have had a far worse crisis.

Our goal in TARP is to promote financial stability, and by intervening with those two companies, we were able to do just that. They were not just manufacturing companies, but large financing and lending companies. Our role, though, is not to manage those companies directly. We did review their plans. We insisted that their plans be altered to assure us that they would be able to sustain and eventually grow their business.

So this is about enabling these companies to survive, and then enabling the auto industry and those companies to grow in the future.

We did take steps to assure that they would have a new board as well as new management. They have been making progress. And so we are hopeful that, down the road, they will be growth engines again, along with——

Mr. TURNER. Excuse me for just moment.

Mr. Chairman, if I could clarify, I just want to make certain that we have——

Mr. KUCINICH. The gentleman will suspend. Hold on.

Mr. TURNER. Sir, if I could just——

Mr. KUCINICH. I'm going to let the gentleman followup. But there's a point raised here that I'm going to have to take a privilege as Chair and interject.

You know, if the Treasury isn't managing day-to-day operations, then why did a high-ranking administration official brag about the fact that you are actually paying workers less? I don't understand. I mean, could you answer his question and followup? What's going on here?

Mr. ALLISON. First of all, I don't think anybody is commenting, in the administration, about the wage levels of people here. What we're talking about is enabling these companies to operate and eventually to grow again——

Mr. TURNER. Sir, if I could then——

Mr. ALLISON [continuing]. And to preserve jobs.

Mr. KUCINICH. Mr. Turner, go ahead, followup.

Mr. TURNER. I just want to make certain that I'm not misspeaking. You would agree that taxpayers' funds that are financing General Motors in its reorganization are being used for the financing of jobs moving offshore?

I mean, it's inevitable that there is no way to sequester the funds as the taxpayers' money is being used as capital for General Motors and General Motors in turn uses capital for taking jobs offshore, it is inevitable that capital is, in part, taxpayers' funds. Would you not agree with that?

Mr. ALLISON. Well, let me say, first of all, that there were standards established for both companies to maintain——

Mr. TURNER. Sir——

Mr. KUCINICH. We——

Mr. TURNER. My time is——

Mr. KUCINICH. Would the gentleman suspend? I've actually given you 8 minutes because I thought this exchange was very important, but we're going to have another round. We're going to go to Mr. Foster right now. We'll come back to you.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. KUCINICH. Mr. Allison, just put a little bookmark by this discussion, because we will get back to it.

Mr. ALLISON. Fine. All right.

Mr. KUCINICH. Go ahead, Mr. Foster. You're recognized.

Mr. FOSTER. Yeah, I would like to go over quickly just a few different aspects.

Mr. KUCINICH. Just take your time.

Mr. FOSTER. One of them is the money market fund guarantee program, which one of Treasury's activities relating to EESA. What was the maximum size of this program, in terms of assets guaranteed?

Mr. ALLISON. The maximum size of the EESA program?

Mr. FOSTER. No, the money market guarantee fund.

Mr. ALLISON. I believe that, at one point, we were guaranteeing about $3 trillion.

Mr. FOSTER. OK. And what are the losses that have been incurred at this program?

Mr. ALLISON. Actually, we earned a profit on that program of over a billion dollars.

Mr. FOSTER. OK. And is there any way to estimate if the money markets were not bailed out, if my colleagues from Ohio had had their way, and the money markets had collapsed, is there a way to estimate the loss of the economy from the collapse of money markets, had they not been bailed out?

Mr. ALLISON. If the—if the money market funds were allowed to begin failing, there would have been, in effect, a giant run on the bank, both on the money market funds, which are a source of many Americans' savings, as well as on the banking system as a whole.

I don't think we can exaggerate the level of that crisis last year. It was, as was earlier stated, unprecedented in terms of being a financial crisis. And if we hadn't taken very strong action at the time, the consequences of that would have been cataclysmic.

Mr. FOSTER. Right. And, as you said, the taxpayer actually turned a small profit on that interaction.

Mr. ALLISON. Yes.

Mr. FOSTER. Thank you.

Now, in the case of Citi, if you follow through your strategy going forward, that you're going to dribble the stock into the market over time, and if it's trading at roughly its current value—and, as I understand, there is a warrant position that the Government——

Mr. ALLISON. Yes, there is.

Mr. FOSTER. What is your best estimate, as of today, if you just execute that, there no big shifts in the market price, that what you will end up with? Are we going to be money ahead or money behind in the investment in Citi?

Mr. ALLISON. I really, at this point, wouldn't want to forecast our profitability on the Citgroup position. What I would tell you is, currently we would have a small profit on that position overall, counting their payments of dividends to us over time, but I wouldn't make a forecast down the road.

What I would point out, however——

Mr. FOSTER. Right.

Mr. ALLISON. I would point out that so far we have earned a profit on our investments in the financial institutions—in the banks, that is.

Mr. FOSTER. And could you say a little bit about the difference in the decision mechanism for exiting TARP between, you know, a primarily privately held bank or a publicly held bank in which the Government has a minority position and something like Citi or AIG where we own most of it? You know, what is the difference, if any, in the decision mechanism for deciding how to exit TARP?

Mr. ALLISON. Well, again, decisions are made as to when a bank is ready to exist by the regulator. And let me point out that——

Mr. FOSTER. But is there a separate—does the bank also have to request to exit, or does the regulator boot them out? Does there have to be a separate choice that I want to exit now?

Mr. ALLISON. There is a discussion between the bank and the regulators. I think, in many cases, the banks have been eager to exit the TARP, and—but they can't exit unless the regulator opines that they are able to.

In these cases where the banks are exiting, I should point out that their capital ratios are far better than they were before this crisis began, and they have been building tangible common equity positions which are far larger than they were. And so they are in a much better financial condition than before this crisis and certainly during this crisis.

So, at the same time as we're being repaid, these banks are exiting in a far better position than they were.

Mr. FOSTER. OK. And there is an ongoing stress test? Is a final stress test applied prior to the exiting, or an ongoing stress test rigor applied to these firms?

Mr. ALLISON. Yeah, the regulators are constantly examining the condition of these banks closely, monitoring them closely. And then they render their opinion as to whether the bank is ready to repay.

Mr. FOSTER. OK. Thank you.

I yield back.

Mr. KUCINICH. I thank the gentleman.

We're going to go to a second round of questions here, given the Member interest in your appearance, Mr. Allison.

Isn't is true that the statute requires that you maximize taxpayer value?

Mr. ALLISON. Yes, sir.

Mr. KUCINICH. And if you're maximizing the value, how do you do that by divesting rapidly and awarding special tax benefits that reduce tax revenues?

Mr. ALLISON. Well, let me talk about the recent guidance that was issued by the IRS regarding Section 382, which you commented on earlier. I think that this—the purpose of that section has been mischaracterized in the press.

It was intended—and it was enacted, actually, back in the 1980's—to prevent corporate raiders from sheltering income in one company by buying a company this had tax loss carry-forwards and using those carry-forwards to shelter themselves from tax. It was in the taxpayers' interest as a whole that rule was enacted.

Mr. KUCINICH. You know, thanks—you know, thanks for the history lesson, but, you know, let's go more to present day.

Mr. ALLISON. And, therefore, therefore, when the Government purchased shares in some of these companies——

Mr. KUCINICH. Right.

Mr. ALLISON [continuing]. That was an extraordinary event not contemplated by Section 382. So all that has been done is that there is a very narrow guidance relating only to purchases and then sales, recently, by the Government so that——

Mr. KUCINICH. Well, but you still, with all due respect, Mr. Allison, you still didn't answer my question. And I understand that you're not going to answer the question. So what we will do is we'll have more of a written series of interrogatories between the subcommittee and you, so you can walk us through how, under this narrow passage of 382, you ended up with a circumstance where the Government gave huge tax breaks, multi-billion-dollar tax breaks, to a company that's in a bailout. That, to me, could be a bailout on top of a bailout.

And I'm—we're going to keep that going, though I don't want to spend all my time talking about that. But I just want you to know that we're going to keep asking questions about that.

Can you explain how Treasury avoided a conflict of interest in both managing shares in Citi and awarding a tax exemption for the one-time sale of the Government stock in the company? How did that——

Mr. ALLISON. Well, let me, first of all, say that rule—that Section 382 still applies to Citgroup, and as it was intended to. We have not changed that in any way——

Mr. KUCINICH. But is there a conflict? I mean, are you—tell me how you do this. I want to do it the way Mr. Cummings would do it. Tell me how you do this. How do you, on one hand, say that you represent the taxpayers and maximizing their value and, on the other hand, get more money from the shareholders by giving more of the taxpayers' money to the shareholders? Help me with that, please. I'm having difficulty understanding.

Mr. ALLISON. Well, first of all, the U.S. Government is not a taxpayer. The U.S. Government is not a taxpayer. This——

Mr. KUCINICH. Well, whose money are you dealing with here? I'm just—I missed something.

Mr. ALLISON. What was created when the Government invested—and, at the time it invested, it issued guidance, as well, about its investments in these companies. The Government is not a—is not a taxpayer.

Mr. KUCINICH. But it works with taxpayers' money.

Mr. ALLISON. And the intention of getting in was, this was very extraordinary. It was intended to be a short-term investment. It was not for the purpose of sheltering taxable income. And, therefore——

Mr. KUCINICH. Does the right hand know what the left hand is doing, Mr. Allison? On the one hand, the right hand is handling shareholder assets; the left hand is handling taxpayers' money.

We'll go into this more. I have one more question. And, you know, I don't mean to cut you off, but my time is running shorter.

As major shareholders in four companies, with shareholder votes coming this spring, will Treasury be voting these shares?

Mr. ALLISON. Treasury will be voting shares along the lines that I outlined in my testimony. We will be voting on the election of directors. We will be voting over time on special corporate events, major corporate events.

Mr. KUCINICH. And what's the process by which you'll take positions on issues before the shareholders?

Mr. ALLISON. At—we are working on those guidelines now. And I'm sure we would be happy to talk with the committee members about them.

Mr. KUCINICH. That would be great.

Mr. ALLISON. We'll be happy do so.

Mr. KUCINICH. So you'll—so you'll—we'll have some dialog between Treasury and the committee before you get to a situation before you are actually voting on those shares.

Mr. ALLISON. Right. Thank you.

Mr. KUCINICH. That's progress. I appreciate that.

The Chair recognizes Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman.

Mr. Allison, in your discussion with Mr. Foster a few minutes ago, you talked about this program and made it sound like it was apple-pie wonderful. I think the word "profit" was used several times in that discussion.

But I'm just curious, what do we expect, what do the taxpayers expect when it comes to the TARP dollars, their dollars that were put into AIG, GM, Chrysler, the financing arm of GM, the financing arm of Chrysler? What do we expect to happen there? Are we going to be able to use the word "profit" when we are talking about all that money, those billions of dollars put in those five entities?

Mr. ALLISON. Well, just last week, we published our evaluations of all of our assets. And we will be sending you a copy of this, if you haven't already received it. And it is a full report on our approach to valuation and the current values of these positions.

And the way that we value them is, where possible, to use market instruments——

Mr. JORDAN. Cut to the chase.

Mr. ALLISON. Yes, sir.

Mr. JORDAN. Are we going to be able to use the word "profit" like you did so many times in talking about the banks?

Mr. ALLISON. Well, it's, I'd say, too early to be able to estimate what the outcomes will be. Currently——

Mr. JORDAN. Hasn't the Secretary himself said we're not likely to make a profit on AIG, GM, and Chrysler?

Mr. ALLISON. Right. Currently, we show that the total current valuation of the auto companies and AIG would be a loss of about $60 billion, which is less than it was before. Again, let me emphasize that the projected losses, using the accepted means of valuation, were about $341 billion. They are about $200 billion less than that over the entire program. The investments in total that have been made so far would show——

Mr. JORDAN. The picture is not quite as rosy when we talk about all the money that's been put into those entities.

Mr. ALLISON. Yes, sir, that's true. Today they are marked as losses.

Mr. JORDAN. And rational people, including the Secretary of Treasury himself, would say it is likely the American taxpayer is going to lose on those five.

Mr. ALLISON. Based on current valuations.

Mr. JORDAN. OK.

Mr. Chairman, if I could—and this, I think, brings up a point. I think it's important—you know, think about this. This committee has had, over the last year, oh, I forget how many hearings on Bank of America. We have had Mr. Barofsky in front of this committee, a couple times I believe. We've had Mr. Kashkari and Mr. Allison today, and we appreciate that. We've had Mr. Feinberg—and I do want to ask the gentleman a question about Mr. Feinberg. We had a hearing in Cleveland, Ohio, at the chairman's request, on the HAMP program. Miserable failure, we found out at that hearing, a home mortgage modification program, not working.

At some point, I think it makes sense—the Treasury Secretary seems to be able to come and testify in front of the Budget Committee, in front of other committees—it makes sense for him to come in front of the Oversight Committee. Whether it's this Subcommittee on Domestic Policy, Mr. Chairman, or, frankly, the full committee, that seems to be in order. And, frankly, it should happen sooner rather than later.

And I have another question, Mr. Chairman. But I guess I was directing that question to the chairman a little bit.

Mr. KUCINICH. Well, yeah, I will respond to the gentleman's question. I think the gentleman raises a valid point about the responsibilities that we have as a subcommittee for oversight on this matter. And let's consult and draft a letter of invitation.

Mr. JORDAN. I appreciate the chairman's willingness to do that.

Let me just ask you one last question, Mr. Allison. We did have Mr. Feinberg here. What kind of interaction do you have with the executive compensation czar, so-called pay czar?

Mr. ALLISON. I speak with the pay czar from time to time—that is, Mr. Feinberg—who is the special master overseeing compensation of companies that have received exceptional assistance.

Mr. JORDAN. Speak with him from time to time. Do you review his decisions at all? Do you weigh in on his decisions when it comes to compensation for executives?

Mr. ALLISON. Mr. Feinberg's decisions are his own. He's independent for those purposes.

Mr. JORDAN. And does Mr. Feinberg answer to anybody?

Mr. ALLISON. Mr. Feinberg is responsible to the Secretary of the Treasury for performing his role, but Mr. Feinberg has been making his decisions independently.

Mr. JORDAN. Are you troubled by the fact—I mean, you're an accomplished individual. You served our country in the Navy. You've got an undergraduate degree from Yale, master's degree from Stanford, held many important roles in the private sector and now the public sector.

Are you troubled by the fact that we have one single individual in the U.S. Government telling private American citizens how much money they can make?

Mr. ALLISON. First of all, Mr. Feinberg has made his decisions transparent. The American people can judge for themselves. And——

Mr. JORDAN. That's not what I asked. Are you troubled, as someone with your education, your experience, your background, and, frankly, someone whose title is "Secretary for Financial Stability," overseeing the TARP program, are you troubled by the fact we have in the United States of America one single individual telling private American citizens how much money they can make?

Mr. KUCINICH. The gentleman's time has expired, but you may answer and I would encourage you to answer the question.

Mr. ALLISON. Thank you very much, Mr. Chairman.

We have to, again, put this into context. We made investments on behalf of the taxpayers—extraordinary investments, unprecedented in financial institutions. These are temporary investments. We have to protect the taxpayers' interests. And, therefore——

Mr. JORDAN. Yes or no, are you troubled by what—it is a yes or no. And I would say that Mr. Feinberg said, yes, he is troubled by the fact. He himself said that when I asked him the same question.

Mr. ALLISON. I would say that it's unfortunate that we are at the point, because of this crisis, where a special master has to be appointed to protect the interests of taxpayers. I think that he has a very difficult job; I think he is performing it well. So I'm not troubled by his performance at all.

Mr. KUCINICH. Thanks to the gentleman.

We're going to go to Mr. Cummings. You're recognized for 5 minutes. Go ahead.

Mr. CUMMINGS. Thank you very much.

On March 30th, President Obama publicly rejected both the GM and the Chrysler plans for stabilization and long-term viability. The White House hired dozens of consultants—a dozen consultants and experts and forced additional reviews and major changes to their plans and then approved them.

Why wasn't that same in-depth, hands-on approach used when it came to the financial firms?

Mr. ALLISON. Well, we have to, again, take account of the situation at the time that those initial investments were made. This country faced a financial catastrophe, and it literally had days to act before the entire system would unwind, irreparably perhaps. And, therefore, those decisions were made, I think, by very capable people under tremendous pressure.

And I think that the events since then have proven the wisdom of those actions that were taken at the time. I think they saved the financial system and the American economy. And the taxpayers are receiving returns that I think were far better than anyone could have dared forecast at the time.

Mr. CUMMINGS. Well, and so, do you think the trusteeship model that was used for AIG should have been considered for use with all companies in which the Government held voting shares?

Mr. ALLISON. Well, again, the trustee structure overseeing AIG was formed before the EESA law was enacted.

Mr. CUMMINGS. Right. Right.

Mr. ALLISON. And I think today we have, with the other companies, Treasury is overseeing our investments. I think it's important to link the authority over financial stability with the oversight of our investments in those companies so that authority and accountability are conjoined.

Mr. CUMMINGS. Uh-huh. And so, now we are in a situation where you just said that, with regard to our voting shares, you sound like there's some meetings that take place and then you decide on what you're going to vote on. Is that right? Or you decide how it's going to be voted on. And do you and Mr. Geithner and others in the administration have any kind of say on what happens with our votes? I mean—and how is that decided?

Mr. ALLISON. What we'll do is to provide you with the information on how we intend to vote our shares—that is, the procedures that we'll be taking to make those decisions.

Mr. CUMMINGS. And when will we have that?

Mr. ALLISON. In the first quarter.

Mr. CUMMINGS. OK.

Listen, I was just reading a New York Times article this morning; it says, "Four big mortgage backers swim in ocean of debt." And it's referring to AIG, Fannie Mae, Freddie Mac, and GMAC. And this is a very interesting statement. I just want to hear your reaction to this.

It says, talking about those four companies, they "appear at risk of getting onto a debt merry-go-round where they have to draw new money from the government just to keep up with their existing government debts. Fannie Mae recently warned, for example, that it could not pay the dividends it owes the Treasury, so future dividend payments will be effectively funded with equity drawn from the Treasury."

Now, I'm going back to some questions on the part of the chairman, the chairman asked a little earlier. You know, I'm just—it just seems like we almost have shell game going on here. In other words, we take from the Feds, and then—we take from one pot—it is sort of like having a line of credit. And so you take from your line of credit to pay your mortgage, but you're never really getting out of debt.

I mean, is that an appropriate analogy?

Mr. ALLISON. Well, first of all, the GSEs are not under TARP.

Mr. CUMMINGS. Right. I understand that.

Mr. ALLISON. And with respect to AIG——

Mr. CUMMINGS. But you deal with these folks, right? I mean, I have to get you when I've got you. You're here. I may not see you again.

Mr. ALLISON. Yeah. I don't have responsibility over the GSEs' funding.

Mr. CUMMINGS. OK.

Mr. ALLISON. But let me say with regard to AIG, which is within TARP, we didn't anticipate making any further investments in AIG.

Mr. CUMMINGS. And why is that?

Mr. ALLISON. Because we believe that the investments we made should be adequate. And we are monitoring that company carefully, and it is making progress against its plans, for example——

Mr. CUMMINGS. Does that mean we're going to get our money back?

Mr. ALLISON. Again, currently, we would show, in our valuations, a loss on that investment. That is not a prediction of the outcome. And I wouldn't want to make a prediction, at this point. I think it is too soon. AIG is still in the midst of transformations that are intended to maximize value. The chairman of AIG has stated that he expects to pay back the U.S. Government every dollar, but we'll have to wait and see.

Mr. CUMMINGS. All right. Thank you.

Mr. KUCINICH. I thank the gentleman.

The Chair recognizes Mr. Turner. He may proceed for 5 minutes.

Mr. TURNER. Thank you, Mr. Allison.

I want to get back to General Motors, but, before I do, I just want to touch briefly on this issue of whether the taxpayers are going to make a profit out of the bailouts or not.

And I want to recognize that, to this point, you have been hesitant to speculate on the final outcome, which I certainly understand and respect. I understand that you're basically saying to us the final debits and credits have not been made, so I'm not going to predict what the outcome would be of losses and gains.

And I think it's probably best that you're unwilling to do that as you're trying to look to manage the assets. And, wanting these assets to have value, you don't want to predict their non-value.

Mr. ALLISON. Right.

Mr. TURNER. So I respect that.

But I do want to say—and I want to ask you to correct me if I am wrong, which would not violate your lack of speculation—that to speak of profits is immature—excuse me, premature. I personally believe that to speak of profits is misleading. Because what we're really talking about is transactions from which there is revenue that will be offsetted by, I believe, massive losses in other areas. And that, when we talk in the aggregate, in the aggregate, I believe that there are going to be losses, but no one currently is predicting profit.

So would you disagree that no one is currently predicting that, in the aggregate of our bailouts—AIG, General Motors, TARP—that there is going to be a profit? No one is currently predicting, in the aggregate, from these bailouts that there is going to be a profit, you agree?

Mr. ALLISON. Well, sir, I've learned after 40 years in the financial business not to make predictions about markets or investment outcomes. However——

Mr. TURNER. But no one is predicting——

Mr. ALLISON. Well, and I think, under the circumstances, if you look at our valuations, we are also currently valuing some of those investments at a loss. It's less of a loss, in a number of these cases, than it was even 6 months ago. I don't know the final outcome, but currently we are showing losses in some of those investments, yes, sir.

Mr. TURNER. And I appreciate you saying that, because I think when Members of Congress or members of the administration step forward and give selected pieces of information to give the public the perception that there are actually profits that are being generated, they are ignoring—and you have not done that.

Mr. ALLISON. Thank you.

Mr. TURNER. Let me make it clear, Mr. Allison, you have not done that—that they are misleading the public on what the likely outcome will be.

Mr. ALLISON. Well, I would invite the members of the committee as well as the public to take a look at our valuations, again published last week, as of the third quarter of this year. And they will get full information about our valuations of these investments by category.

And, again, I would say that we are working very hard to preserve value for the taxpayer, and so far——

Mr. TURNER. I appreciate that. And we'll have to leave it there, because we've got to get to General Motors before my time is up.

Mr. ALLISON. Yes, please, go ahead.

Mr. TURNER. Where I was last time was, the taxpayers have provided capital to General Motors.

Mr. ALLISON. Yes.

Mr. TURNER. General Motors has used capital for the purposes of moving jobs offshore through partnerships, direct investment, and outsourcing.

Isn't it true that, if the taxpayers are giving General Motors capital and General Motors is using capital to move jobs offshore, the taxpayers' funds are being used to move jobs offshore?

Mr. ALLISON. Congressman, I don't believe that is a correct characterization of the use of our assets. These investments——

Mr. TURNER. Let me back up then.

Mr. ALLISON. Please do.

Mr. TURNER. Because, is not capital fungible? I mean, if General Motors was starved for capital and they weren't able to undertake capital projects and you gave them money for capital and then they used capital money to move jobs offshore, you are enabling them, you are making it possible for them, you are providing capital that inherently is being used as capital to fund their program that results in jobs moving offshore. How can that not be the case?

Mr. ALLISON. I think the most accurate characterization of our investment is that it saved hundreds of thousands of American jobs. Now, again, let me emphasize——

Mr. TURNER. So, Mr. Allison, you would deny that the taxpayers' moneys assisted General Motors in moving jobs offshore?

Mr. ALLISON. I think that far more jobs would have been lost here in America had we not——

Mr. TURNER. That's not what I asked you. Would deny that General Motors moved jobs offshore, that the taxpayers assisted General Motors in moving jobs offshore? You're denying that?

Mr. ALLISON. I think the taxpayers assisted General Motors in surviving and creating more American jobs down the road. And I think that was vital to not just the industry of the United States but to the financial system as well. I think that——

Mr. TURNER. And, Mr Allison, you've been very careful in your statements and in your credibility in this hearing, and I really wish that you would not diminish your credibility by trying to deny this aspect, which is a basic accounting and one which everyone knows is true, that taxpayers provided capital to General Motors, General Motors is using capital to move jobs offshore, the taxpayers' capital is facilitating moving jobs offshore.

I would appreciate it if, for your credibility, you could acknowledge that.

Mr. ALLISON. I do not agree, respectfully, sir, that they are using their capital to move jobs offshore. Let me also say—because I think what they are doing, and what we have done, is to save hundreds of thousands of American jobs by stepping in with Chrysler and General Motors.

Let me also emphasize that the U.S. Government is not in the business of running companies. We are owning those shares not by our desire but by necessity. We'd like to shed ourselves of those investments as rapidly as we responsibly can, and that's precisely what we are about doing.

But we are not going to run these companies. And I think that would be of great concern to many in the American public, if we were to take over the companies and start making management decisions. And I don't think we'd make the best management decisions.

Mr. KUCINICH. You know, your time has expired, but——

Mr. TURNER. Thank you, Mr. Chairman.

Mr. KUCINICH [continuing]. I just want to say, you know, again, because I have these same concerns: You can't, on one hand, say that you really don't want to be managing these companies and let a lot of American jobs be at stake and watch companies that are holding bailout funds move jobs out of the country and just say, "Oh, you know, sorry, we don't really have anything to do with that. Pass the biscuits, please." No, no, no, no. That's not the way we look at it.

I think it would be important for you, Mr. Allison, to take back to the Treasury Secretary the feelings of members of this committee about how people use these funds. And if jobs are, in fact, going to Korea and other countries, jobs are going and they are going with the help of companies that we've given a lot of money, I think that's a legitimate concern. And I just want to support the gentleman's line of inquiry.

The Chair recognizes the gentleman from Illinois, Mr. Foster.

Mr. FOSTER. Thank you.

Let's see. At the point that the EESA authorization passed, do you recall what the estimate for the fraction—by the Congressional Budget Office of the fraction of money that would not be recovered? You know, what fraction was expected to be lost, when it got scored?

Mr. ALLISON. The total program, at the beginning of the program early this year, the estimate was that the total loss would be over $340 billion in the TARP program.

Mr. FOSTER. OK. And so, is that fairly excluded, at this point, unless there is something dramatic happens, that's going to be—end up being a gross overestimate of the loss.

Mr. ALLISON. As I mentioned before, that estimate has been reduced by over $200 billion so far.

Mr. FOSTER. OK. I would like to return, if I could, for a moment, of this historical question of whether or not Members of Congress understood what was actually in the EESA authorization. And I would like to quote, if I could, from my testimony to the Financial Services Committee on September 28, 2008. This is the day before the first of the two House votes on the EESA authorization.

So this is what I said at the committee at the time: "This is not the time for ideological fighting about class warfare from the left or blind adherence to the principals of the unfettered free markets and zero government regulation from the right. This is the time for serious people from both parties to work fast, work smart, and map a way out of this crisis.

"And the second point that I would like to make is that there are two routes mapped out of this crisis by the legislation we are considering: the auction route and the equity route. I wish to express my strong preference for the equity route, and I believe that the American taxpayer and business owner will agree.

"In the auction route, taxpayer funds are used to buy off toxic assets left over from bad loans at a price well above anything you can get in the current market. Financial firms are bailed out, and life goes on pretty much as usual for these firms, with the exception that they have learned that whenever they make a whole batch of bad loans they can expect to be bailed out by the U.S. taxpayer.

"In the equity route, also allowed by this proposed legislation, the firms are bailed but at the price of government getting a big share of the company. I believe this is a far better deal for the taxpayer. The companies will be required to write down the value of their toxic assets, essentially admitting that their worthless paper is worthless. And, in exchange, the government injects cash by buying a large fraction of these banks. This is not dissimilar to the recent AIG bailout. Over time, the market recovers, and the banks are sold back to private investors."

And the testimony goes on, describing the advantages of this.

So that the statement that Congress did not understand what was authorized by the EESA thing must come from people that either didn't read it or understand what was there. It was very clearly understood that there were two ways out of this and, at least on my part, very clearly understood that one of these was preferable because that was all that could happen in the emergency situation we're in. And I believe that those of us that, in fact, voted in favor of the EESA authorization were the adults in the room and have made a vote that we can be proud of forever.

Anyway, that's, I guess, what I have to say there, and I yield back.

Mr. KUCINICH. I want to thank the gentleman.

And I have a comment to make. I don't want to make it when you're out of the room; you should be in the room because I'm going to respond to what you said.

The Treasury Secretary, Mr. Paulson, made a statement that the money was not going to be used to deal with the foreclosure crisis. He said that. Now, why would he do that unless there was some kind of a misimpression—or, not a misimpression—an impression that we were given? We had a hearing on this, Mr. Allison and Mr. Foster. We had a hearing on this.

I just want to point out something that really does trouble me about what's happening with the way the wealth of the Nation is being accelerated upward. And that's one of the problems I've had with the bailout. You may say, well, it helped stabilize the American economy. But what I see is a separation between the real economy and Wall Street, that Wall Street—stabilizing the markets, you know, a lot better. The banks are doing well. They parked their money at the Fed for a while so they could get higher interest rates.

But they're not—you know, all across this country people are starved for capital. You have small businesses failing, you have shopping centers that are becoming vacant because people can't afford the rents anymore, because the people owning the centers or developers are getting cash calls or credits are evaporating. We're still—you know, we're in a deep recession that has not yet bottomed out, despite the statistical corrections in the November statistics.

This separation between the finance economy and the real economy is real. This is not some fake idea. So you can't call that class warfare. That's a fact. And, you know, there is no—the class warfare is over. We lost. I want to make that announcement here today. Working people lost. The middle class lost.

Don't tell me about class warfare. Come to my neighborhoods in Cleveland, I'll show you class warfare. I will show you hollowed-out areas. I'll show you businesses that went down because they don't have access to capital. And, on Wall Street, it's fat city. Don't tell me about class warfare.

Thank you for being here, Mr. Allison. We look forward to having an opportunity to hear more testimony from Treasury and look forward to having this subcommittee working with you.

This is the Domestic Policy Subcommittee. It has been a hearing on "The Government as Dominant Shareholder: How Should the Taxpayers' Ownership Rights Be Exercised?"

Appreciate your presence. Have a good holiday.

Mr. ALLISON. Thank you very much, Mr. Chairman.

[Whereupon, at 11:50 a.m., the subcommittee was adjourned.]

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